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FISCAL IMPACT STATEMENT

LS 6387

BILL NUMBER: HB 1039

NOTE PREPARED: Nov 30, 2007

BILL AMENDED:

SUBJECT: Sales Tax Holiday.

FIRST AUTHOR: Rep. Steuerwald

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill provides a Sales Tax exemption for any item purchased at retail with a sales price of \$2,500 or less during a two-day period each year beginning on the second Saturday of August.

Effective Date: April 1, 2008 (retroactive).

Explanation of State Expenditures: Implementing the Sales Tax exemption provided in this bill will increase the administrative costs of the Department of State Revenue (DOR). The DOR will have to amend the Sales Tax forms, procedures, and rules, as well as update computer software.

Explanation of State Revenues: The Sales Tax exemption provided in this bill will decrease state Sales Tax collection by between an estimated \$13.2 M and \$39.0 M in FY 2009 and between \$13.8 M and \$40.7 M in FY 2010. This estimate assumes that there will be a shift in taxable sales to the exemption period provided in the bill from days falling outside the exemption period. The assumption is that up to 7 days worth of taxable sales could be shifted to the 2-day exemption period. The low range of this estimated impact represents the estimated average daily Sales Tax collections for the 2-day exemption period.

Please note, in addition to the decrease in Sales Tax collection estimated above there will be an indeterminable decrease in collections due to the retail sales of any motor vehicles with a taxable selling price below \$2,500. The amount of motor vehicles that will be sold at retail below \$2,500 is indeterminable and will ultimately depend upon the amount of any dealer discounts, manufacturer rebates paid directly to customers, as well as the value of each customer's trade-in.

Sales Tax Collections will decrease from sales that are shifted into the exemption period from a period when

the items would have been taxable. There could be an offsetting impact on business income tax collections if the sales occurring during the exemption period are sales that would not have otherwise occurred (e.g., if people purchase more than they would have purchased otherwise or if out-of-state residents come into the state to purchase items they otherwise would not have purchased in Indiana).

The bill provides a Sales Tax exemption for any tangible personal property sold at retail in a retail transaction during the time period beginning at 12:01 a.m. of the second Saturday of each August and ending at 11:59 p.m. of the following Sunday. Therefore, despite the April 1, 2008, effective date, the first impact on Sales Tax collections will not occur until FY 2009.

The statutory definition of tangible personal property includes any “personal property that: (1) can be seen, weighed, measured, felt, or touched; or (2) is in any other manner perceptible to the senses. The term includes electricity, water, gas, steam, and prewritten computer software.” Please note that the estimate above does not include a shifting of any sales of utilities due to the assumption that utility companies will bill and supply their retail consumers in the same manner as any other two-day period during the year.

Sales Tax revenue is deposited in the Property Tax Replacement Fund (PTRF) (50%), the state General Fund (49.067%), the Public Mass Transportation Fund (PMTF) (0.76%), the Commuter Rail Service Fund (CRSF) (0.14%), and the Industrial Rail Service Fund (IRSF) (0.033%). The table below shows the impact on the various funds included in the Sales Tax distribution.

| IMPACT ON FUNDS (in millions) | | No Shift | | 7-Day Shift | |
|-------------------------------|--------------|-----------------|-----------------|----------------|----------------|
| Fund | Distribution | FY 2009 | FY 2010 | FY 2009 | FY 2010 |
| State G.F | 49.067% | 6.479 | 6.756 | 19.14 | 19.95 |
| PTRF | 50.000% | 6.602 | 6.884 | 19.50 | 20.33 |
| PMTF | 0.760% | 0.100 | 0.105 | 0.30 | 0.31 |
| IRSF | 0.033% | 0.004 | 0.005 | 0.01 | 0.01 |
| CRSF | 0.140% | 0.018 | 0.019 | 0.05 | 0.06 |
| Total | 100% | \$13.203 | \$13.769 | \$39.00 | \$40.66 |

Explanation of Local Expenditures:

Explanation of Local Revenues: Local revenues will be impacted to the extent that a local unit receives funds from the Public Mass Transportation Fund, the Commuter Rail Service Fund, or the Industrial Rail Service Fund. Please note that although there will be a decrease in Sales Tax collections deposited in the PTRF, locals will not necessarily see a correlating reduction in their PTRC payments since those amounts are determined by appropriations enacted in the state budget bill.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: All.

Information Sources: U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Expenditure Survey*, <http://www.bls.gov/cex/>.

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